Consumer industries: keeping up with digital consumers

As digitalization revolutionizes customer behaviour, consumer industries must act fast to meet the expectations of digital consumers.

Digital innovation is shaking up consumer industries: shifting power from brands to consumers, shifting value from traditional players to digital insurgents, and putting the consumer in the driver’s seat.

Mobile, social media, analytics and cloud have fundamentally shifted the way consumers buy and use products and services. This has led to important innovations in areas such as payment technology and last-mile delivery.

Thanks to their position at the forefront of digital innovation, consumer businesses are now sailing further ahead into uncharted waters.

For society at large, digital transformation can create efficiencies that benefit the environment, generate employment in new fields, and propagate a wellness culture. Consumer industries need to think deeply about what digital means for them and what problems digital can help them overcome.

The success of digital transformation will hinge on the success of consumer companies in innovating while maintaining the trust of their consumers.

We see four themes that will be central to the digital transformation of consumer industries over the next decade:

1. Consumer data flow and value capture
2. Experience economy
3. Omnichannel retail
4. Digital operating model

The Digital Transformation Initiative

The Digital Transformation Initiative (DTI) is a project launched by the World Economic Forum in 2015 as part of the Future of the Internet Global Challenge Initiative. It is an ongoing initiative that serves as the focal point for new opportunities and themes arising from the latest developments and trends from the digitalization of business and society. It supports the Forum’s broader activity around the theme of the Fourth Industrial Revolution.
Fourteen trends for a digital consumer industry

Demographic, technology and ecosystem trends are transforming the consumer industries.

Demographics

1. Emergence of millennials
Millennials (those born between 1980 and 2000) are entering the workplace and forming households in greater numbers. They prefer access to ownership, prize convenience and demand transparency about what they consume.

2. Ageing population
A growing cohort of elderly people has led to a rapid growth in goods and services catering to their needs. The elderly and millennials both boost the convenience economy, though in different ways.

Percentage of global population aged 60 and above in 2050 – up from around 12% today


3. Urbanization
It’s estimated that almost 60% of the world’s population will reside in urban areas by 2050, up from 54% in 2014. Over-congested cities require innovative delivery models to meet consumer needs.

4. Growing middle class
The global middle class is expected to rise from 1.8 billion people in 2009 to 4.9 billion in 2030. This trend is fuelling demand in emerging markets.

Technology

5. Mobile and internet penetration
Internet penetration has almost doubled over seven years to reach around 40% in 2014. Consumers are shifting their purchases online, providing companies with direct access to them.

6. Digital media consumption
The proliferation of digital media has led to an explosion in the creation, collection and analysis of consumer data.

7. Consumer communities
People trust peer recommendations seven times more than advertisements. Social media platforms allow the almost instant creation of public opinion. Companies are responding: almost 80% of them have a dedicated social media team.

8. Internet of Things and other technologies
The Internet of Things (IoT) gives companies the opportunity to create unique customer value propositions. Positioning sensors at store entrances to identify consumers and deliver tailored offers to their smartphones is just one example.

E-commerce penetration is forecast to grow strongly (2015-2025e)

Source: Oregon Digital Library – Euromonitor; Accenture analysis

Source: Philip N. Howard (June 8, 2015). “How big is the Internet of Things and how big will it get?”, The Brookings Institution

To find out more about the DTI project, visit reports.weforum.org/digital-transformation
Fourteen trends for a digital consumer industry (continued)

Demographic, technology and ecosystem trends are transforming the consumer industries.

Ecosystem

9. New disruptions
With the internet lowering barriers to entry, the competition faced by established players has increased exponentially. Moreover, that competition is now diffuse and not easily targeted.

10. Regulatory reforms
Regulators are improving data-related policies and demanding greater transparency in the use of data.

11. ‘Leapfroggers’
In some emerging markets, e-commerce and an associated ecosystem of enterprises offering innovative delivery methods and payment instruments have leapfrogged more conventional businesses.

12. Jobs
Increased automation has pushed people at the bottom of the skills pyramid out of employment. However, some research has found that technological advances increased demand for employees in non-routine jobs.

13. Skill clusters
The geographical concentration of certain human resources and intellectual property has become greater, as illustrated by technology clusters such as Silicon Valley. Companies are moving to these locations to recruit talent, as opposed to the traditional experience of talent coming to them.

14. Environmental aspects
Consumers and governments are increasingly focusing on the environment. There has also been a marked shift in energy use patterns, towards increasing use of renewable energy.

Market size of the consumer industries in 2015 ($ billion)

Source: World Economic Forum / Accenture analysis

To find out more about the DTI project, visit reports.weforum.org/digital-transformation
Future horizons: digital themes and initiatives

Calculating the value of digital transformation in consumer industries.

Drawing on the trends outlined in the previous slides, we have identified four digital themes that will underpin the digitalization of consumer industries over the next decade.

Within each theme, we have identified digital initiatives that can be pursued by industry players, highlighting case studies that illustrate the relevance of these initiatives to consumer industries.

These digital themes and initiatives provide a framework for us to calculate the potential value that digital transformation in consumer industries could deliver over the next decade – both for the industry itself and wider society.

Delivering value through digital transformation for the consumer industries and society

How we calculated the value of digital transformation

Our value-at-stake methodology aims to assess the impact of digital transformation initiatives on industry, customers, society and the environment. It provides likely value estimates of global industry operating profits that are at stake from 2016 to 2025, and the contribution that digital transformation can make to customers, society and environment in that time frame.

Value at stake for industry comprises two elements. First, the potential impact on an industry’s operating profits that will be generated from digital initiatives (value addition). Secondly, operating profits that will shift between different industry players (value migration). Value-at-stake for society measures the value impact of digital transformation for customers, society and the environment.

For a full explanation of our value-at-stake methodology, visit digital.weforum.org.
1. Consumer data flow and value capture

Increasing digitalization will enable companies to use consumer data to innovate and improve customer experiences.

Around 2.5 quintillion bytes of data are created every single day. Consumers’ online browsing, past purchases and payments leave huge trails of information.

Having a stake in this data flow, and creating value from it, will be the keystone around which many consumer enterprises build their business model. These companies will leverage data to improve their services and personalize marketing messages, or by offering consumers services to protect the security and privacy of their information online.

At the same time, growing consumer activism and regulatory reforms reflect society’s increasing data privacy and transparency concerns.

Consumer data flow and value capture: digital initiatives

Data as an asset

Leveraging big data and analytics capabilities to derive insights from consumer data will help propel innovation.

Insights from consumer data bring some exciting possibilities into play, from manufacturers producing hyper-personalized products to retailers optimizing their inventory management.

Data privacy and transparency

Consumer industries are a major target for criminals looking to access personal information and payment details.

Data breaches bring punishing financial fallout for companies, but businesses that earn consumers’ trust will also gain a competitive advantage. Data transparency will be driven by consumers’ growing concern about the social impact of their purchasing decisions.

Data to improve experience

Consumers like services that make their lives easier.

Consumer data can be leveraged to provide a ‘do-it-for-me’ experience, as demonstrated by the many companies that provide consumers with recommendations, bundled offers and in some cases, even virtual reality-based user experiences.

Case study: e-Choupal (Data as an asset)

Indian conglomerate ITC runs the e-Choupal programme, linking farmers directly to the company via the internet. The system has 6,500 centres across 40,000 villages in 10 states, helping around 4 million farmers (as of 2011) get the best rates for their produce and reducing ITC’s procurement costs.

Source: ITCportal.com, “ITC : e-Choupal : Let’s put India first”

Unlocking value from consumer data flow

<table>
<thead>
<tr>
<th>Data privacy and transparency</th>
<th>Value at stake ($ billion, 2016-2025)</th>
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<tbody>
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<td>0</td>
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</table>

Source: World Economic Forum / Accenture analysis
2. Experience economy

New technology enables companies to create personalized experiences for customers at scale.

The vision of companies selling experiences is becoming a reality. The breakthrough has been made possible by the explosion in connectivity, advances in analytics and artificial intelligence, and the growing profusion of smart devices and sensors. This new reality is forcing companies to reconsider whether their current revenue models and offerings are adequate to stand out from the competition. The move from offering products to offering experiences shifts the focus from outputs to outcomes, whether for the individual or for wider society.

Experience economy: digital initiatives

Hyper-personalization in goods

Hyper-personalized products can build brand loyalty, create niches in premium segments and be a point of differentiation from rivals. The potential rewards for businesses may be substantial, but hyper-personalization could also have an environmental downside, by increasing the amount of packaging material used, waste generated or delivery miles incurred.

From products to services and experiences

Offering services to complement products enables businesses to develop a longer-term engagement with their customers. It’s been forecast that by 2018, B2B sellers who incorporate personalization into digital commerce will realize revenue increases of up to 15%. With that engagement comes the potential for newer methods of capturing value and the chance to build strong customer loyalty.

Health and wellness-driven goods and services

With many consumers looking to live healthily, there are significant opportunities for companies offering health-based services. New entrants to what could be a booming segment of the consumer market will need to credibly promote real health benefits to consumers. The ability to demonstrate transparency in their supply chain, nutritional data and products will be crucial.

Unlocking value from experience economy

<table>
<thead>
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<th>Products to services</th>
<th>Hyper-personalization</th>
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<td>$234</td>
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</tbody>
</table>

Value at stake ($ billion, 2016-2025)

Source: World Economic Forum / Accenture analysis

Case study: Fendi (Hyper-personalization in goods)

Fendi manufactures personalized handbags, offering customers the opportunity to create a one-of-a-kind handbag by selecting the colour and material and having their name or initials woven into the body of the bag.
3. Omnichannel retail

Bricks-and-mortar stores must be reinvented to stay relevant as omnichannel retail and e-commerce grow in importance.

The crucial battlefield for retailers has shifted from the high street to a combination of both offline stores and the online world. Many big retailers such as Walmart and Best Buy have decided to build their strategies around omnichannel sales.

As the importance of e-commerce grows, retail is becoming globalized and a few dominant players are emerging. Players such as Amazon and Alibaba have started to allow smaller retailers and sellers of second-hand goods to use their platforms, thereby expanding market share with very little investment.

The level playing field being created by e-commerce provides new opportunities for smaller, niche players, while reducing the power held by traditional ‘big brands’. In fact, the very concept of how brands are built could potentially see a transformational shift.

Omnichannel retail: digital initiatives

Physical store transformations
Bricks-and-mortar retailers must create unique shopping experiences or transform physical stores into fulfilment centres for e-commerce.

Large numbers of customers still value face-to-face interactions and in-store experiences, allowing companies to use existing physical assets to their advantage. For instance, existing stores can support service, maintenance and product sales.

E-commerce penetration, globalization and consolidation
The battle to become a dominant retail platform is set to involve internet giants from different parts of the world.

The consolidation of the global e-commerce market around a small number of huge platforms brings possible cost reductions and greater revenues. But the rise of e-commerce is making the task of managing pricing across channels difficult, as pricing power shifts from manufacturers to online retailers.

Sharing economy
Companies must find new ways of monetizing the trend for consumers to share and sell their used goods with other consumers through online platforms.

More than 400,000 people stay in Airbnb properties every night and Uber is one of the 150 biggest companies in the world. As consumers turn away from buying new possessions, this will have implications for companies with business models centred on manufacturing or retailing new products.

Unlocking value from omnichannel retail

<table>
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<tr>
<th>Sharing economy</th>
<th>Physical store transformation</th>
<th>E-commerce</th>
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</thead>
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<tr>
<td>351</td>
<td>486</td>
<td>638</td>
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<tr>
<td>2010</td>
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<td>2767</td>
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</table>

Value at stake ($ billion, 2016-2025)

- Industry
- Society

Source: World Economic Forum / Accenture analysis

Case study: Argos (Physical store transformations)

UK retailer Argos has transformed five physical stores in London into digital stores, offering customers a quick and easy way to shop, using digital tablets instead of catalogues and physical products. A seamless payment process enables customers to choose from more than 30,000 products and pick up their purchase straight away. The company has announced plans to trial 10 new stores where 20,000 products can be bought instantly or reserved and a further 40,000 ordered in-store for home delivery.

Source:
The Telegraph, “Argos to open 10 digital stores inside Sainsbury’s branches”, January 2015
4. Digital operating model

The ability of a firm’s operating model to manage consumer experiences will determine its success in gaining a competitive advantage.

A digital operating model will enable efficiency, giving firms a competitive advantage over their rivals.

Some companies will need to overhaul their supply chain and processes to deliver innovative services and experiences; for others, smart supply chains and smart factories will help them react more flexibly to demand for personalized products. Many businesses will also want the visibility of their entire supply chain that smart processes offer.

Digital operating model: digital initiatives

Smart supply chains
Leveraging big data and analytics capabilities to drive insights from consumer data will help propel innovation. The technological advances that created the Internet of Things allow real-time supply chain monitoring. This helps firms respond better to changes in consumer demand, enables suppliers and distributors to improve logistics efficiency and empowers retailers to manage their inventories more effectively.

Talent management
As operations go digital, the skills that companies need in their workforce will change dramatically. To develop workers with the right digital skills, businesses may need to partner with government and educational institutions to design appropriate courses. Investing in developing the skills of existing employees – especially those whose jobs are threatened by automation – is equally important.

Smart factories
Smart factories combine electronic and mechanical systems to deliver operational efficiencies to companies and new offerings to consumers. As consumers seek increased personalization, flexible, modular production lines can help deliver highly customized goods. They also make it easier to reformulate offerings, produce prototypes and get new products to market faster. However, substantial investment in automation and connectivity technologies is required.

Unlocking value from digital operating models

![Graph showing value at stake for smart factories, talent management, and smart supply chains.


Case study: Siemens (Smart factories)

Smart factories are already up and running, particularly in Germany. Siemens operates a smart factory in Amberg that can produce 250,000 electronic components an hour. In 1990, the production line was 25% automated; now it is 75% automated. The defect rate has dropped to just 11.5 per million, and output has increased 8.5 times while employee numbers have been steady.

Source: Siemens, “Digital Factory Defects”
What consumer companies need to do to stay ahead of digital transformation

Incremental change alone is no longer enough. Here are our recommendations for consumer businesses to keep up with – and stay ahead of – digital transformation.

Recommendations

**Break down traditional organizational barriers**
Departments within a business must be aligned so that multiple functions can access real-time data and customer feedback. Investments will need to be made in tools that allow multiple functions to access real-time sales data and customer feedback, and make coordinated decisions.

**Invest in partnerships**
Partnerships will give consumers a seamless experience as they switch between products and services, and encourage brand loyalty. They will also generate value for the companies involved: an attractive ecosystem of partnerships helps promote loyalty among customers and users.

**Invest in digital skills and capabilities**
Consumer firms will need to invest more widely in the digital skills of their talent base, either through skill-building programmes or by acquiring promising start-ups. They will also need to build capabilities to listen to their customers, look out for new disruptive ideas and respond to customer feedback.

**Build omnichannel presence**
Enterprises across the value chain are working together in new and intriguing ways. Municipal codes and national regulations are common industry hurdles that can be seen as opportunities for collaboration.

**Build platforms for the future**
The digital transformation themes in this report all touch on a common idea: companies in consumer industries have the opportunity to go beyond being just suppliers, manufacturers or sellers and become a platform or a partner to a platform. Platforms are appearing everywhere, from the digital car to the connected home, but have been particularly successful in retail and media.

Successful platforms in consumer industries will need to find ways to nurture the ecosystem around them. This may include initiatives such as partnering with other industries, the government, innovators and companies from other sectors; building digital skills; investing in advanced transport infrastructure; and developing cutting-edge technologies to drive differentiation.

For our full recommendations, please read our in-depth report on digital transformation in the consumer industries, available at digital.weforum.org.
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References
For a full list of sources and references, please refer to our in-depth report on the consumer industries, available at digital.weforum.org.